

ALLOCATION OF COSTS

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ALLOCATION OF COSTS

ALLOCATION OF COSTS – INTRODUCTION

9200

(New 03/10)

This section describes the methodology and required documentation for the allocation of departmental costs to their program budgets. All budgets are required to be in a program appropriation format. Any budgets remaining in a category format must be approved by the Department of Finance. Departments with budgets in a category format must convert traditional line item costs to the required program budget levels as displayed in the Governor's Budget. Refer to SAM Sections 8752-8757 for information regarding Indirect Cost Rate Proposals (ICRPs) or cost allocation plans (CAPs) for departments that receive federal funds.

Costs with one or more characteristics in common are accumulated into cost pools. Cost pools are then assigned to one or more programs. Costs assigned to a program are either direct or indirect. Refer to SAM Section 9205 for information regarding time reporting.

Direct costs are costs that can easily be identified to a program. Examples of direct costs are personal services for project staff, consultants, travel, and training.

Indirect costs do not have a direct relationship to the program and are assigned through the use of a formula. Examples of indirect costs are costs for administration and legal units, utilities, and rent.

Personal services and operating expense and equipment (OE&E) can be either direct or indirect costs. Personal services and OE&E for administration are indirect costs, but Personal services for program staff are direct costs. Materials purchased in bulk are typically handled as indirect costs, while materials required for specific projects are charged as direct costs. Some OE&E costs, e.g., telephone costs, may be direct or indirect costs.

Some organizational units, e.g., information systems, data processing, and reproduction, etc. provide services to other units in the department. These service units differ from the staff support organizational units (e.g., accounting, budgeting, personnel, etc.) in that they have readily measurable products. Service unit costs may be direct or indirect depending on how their costs are allocated.

Regardless of the type of cost, all costs should be allocated according to the most equitable basis practical. Also, costs should be allocated consistently throughout the fiscal period.

DIRECT COSTS

9201

(New 03/10)

Direct costs are incurred for activities or services that benefit specific projects/programs, e.g., personal services for project staff and materials required for a particular activity. Because these activities/services are easily traced to programs, their costs may be charged to programs on an item-by-item basis.

ALLOCATION OF INDIRECT COSTS

9202

(New 03/10)

Cost allocation is the assignment of indirect costs to one or more programs according to a formula. Indirect costs are assigned to the programs they benefit according to the methodology that represents a reasonable and equitable distribution.

The following should be considered when developing a cost allocation process:

1. Timeliness—The cost allocation process must produce program cost data on a timely basis.
2. Consistency—The cost identification and distribution methods selected must be applied consistently throughout the accounting period.
3. Accuracy—The information provided shall be as accurate as possible.
4. Audit Ability—Program costs must be fully auditable; i.e., working papers or system documentation must be retained showing program cost identification, accumulation, and distribution methods.

ALLOCATION OF COSTS

There are many ways to distribute indirect costs. Some departments may use one method for a specific type of cost, while others may use another method for the same type of cost. 9202 Illustration displays three of the most common methods of distributing indirect costs.

RATE DETERMINED BY PERSONAL SERVICES AND/OR TOTAL COSTS

9202.1

(New 03/10)

Method A in the 9202 Illustration distributes indirect costs using a rate that includes personal services or total costs. This method is typically used for distributing administration (personal services and OE&E) and some other OE&E costs.

Administration costs include all costs for executive staff and staff support organizational units. Examples are executive policy and planning, general administration, budgeting, accounting, personnel, business services, management analysis, training, and legal. Administration costs are distributed to the programs based on the most appropriate method for the work activity.

OE&E indirect costs distributed by method A may include miscellaneous office supplies, postage and printing, equipment rental, telephone charges and utilities.

The allocation percentage rate for method A is determined by dividing (1) personal services costs for a program by the total personal services costs for all programs or (2) total costs for a program by total costs for all programs.

RATE DETERMINED BY HOURS

9202.2

(New 03/10)

Method B in the 9202 Illustration distributes indirect costs by a rate calculated by hours. This method is typically used for distributing service unit costs. The allocation percentage rate for method B is determined by dividing the total hours required to provide services for a program (Program 10) by the total hours required to provide services for all programs (Programs 10, 20 & 30).

For example, if a reproduction unit spent 132 hours providing services for Program 10 and a total of 176 hours providing services for all programs, the allocation percentage would be 75%. 75% of the service unit's costs would be charged to Program 10.

RATE DETERMINED BY OTHER METHODS

9202.3

(New 03/10)

Method C in the 9202 Illustration distributes indirect costs by a rate calculated by usage. This method may be used for distributing rent, telephone or other utilities using square footage, number of employees, or other equitable distribution base. For each distribution base, an allocation percentage is determined for each organizational unit. The allocation percentage rate for method B is determined by dividing Program 10's square footage by the total square footage occupied by all programs (Programs 10, 20 & 30).

For example, if Program 10 staff occupies 10,000 square feet of the total 20,000 square feet of the building, Program 10's allocation percentage of the space would be 50%. 50% of the rent would be charged to Program 10.

ALLOCATION OF COSTS
 9202 Illustration
 Common Cost Allocation Methods

Method A-To Allocate Indirect Costs Using Rate Determined By Personal Services and/or Total Costs (Program 10)								
Total personal services costs per program (Program 10)	o r	Total costs per program (Program 10)	=	Allocation Percentage	X	Indirect costs (includes administration costs)	=	Indirect costs charged to program (Program 10)
Total personal services costs for all programs (Programs 10, 20 & 30)		Total costs for all programs (Program 10, 20 & 30)						
Method B-To Allocate Indirect Costs Using Rate Determined By Hours (Program 10)								
Total hours for a program (Program 10)	=	Allocation Percentage	X	Total unit costs	=	Total costs charged to a program (Program 10)		
Total hours for all programs (Programs 10, 20 & 30)								
Method C-To Allocate Indirect Costs Using Other Methods (Program 10)								
Total square feet used by program (Program 10)	=	Allocation Percentage	X	Total rent or other costs for organization	=	Total rent costs or other costs charged to a program (Program 10)		
Total square feet used by all programs (Programs 10, 20 & 30)								

ALLOCATION OF COSTS
9202 Illustration
Common Cost Allocation Methods

ALLOCATION OF COSTS

COST ALLOCATION DOCUMENTATION

9203

(New 03/10)

All state departments will document and retain their cost allocation procedures and methodology in a cost allocation plan (CAP). Each CAP will contain detailed information regarding the costs being allocated, the allocation methodology, and the following information:

1. The frequency of allocating various costs to programs.
2. The rationale for selecting an allocation base.
3. How often the allocation base is evaluated to determine its continued accuracy.
4. Anticipated changes in the bases used to allocate costs.

All CAPs should be supported by appropriately cross-referenced working papers or system documentation, updated periodically, and retained for reference and for audit purposes. A sample outline of a CAP is displayed below:

PROGRAM COST ACCOUNTING, COST ALLOCATION PLAN

I. Purpose/Scope/General Overview

II. Definitions

III. Budget Structure

IV. Methodology

Allocation of Indirect Cost Pools-Explain allocation basis

Allocation of Administration

- a. Include a description of costs charged to administration.
- b. Describe method or methods for allocating each type of costs to programs.

V. Allocation Sequence

VI. Program and Organization Charts in Picture Form Displaying Roll-Up Levels and Coding Schemes

An example of a CAP for a simple CALSTARS department is available on the internet at:

http://www.documents.dgs.ca.gov/sam/pdf/ca_plan.pdf

ALLOCATION OF COSTS

2009-2010 COST ALLOCATION PLAN

DEPARTMENT OF AIR QUALITY

Approved by the Director Date

ALLOCATION OF COSTS

I. PURPOSE/SCOPE/GENERAL OVERVIEW:

The purpose of this report is to document the Department's 2009-10 CALSTARS cost allocation plan. Each month the Department of Air Quality allocates all of their administrative costs and some costs that are not practical or convenient to charge to a single program (indirect cost pools). The Department's Administration costs are identified in the Budget Act under Program 30, Element 01. The indirect cost pools are not identified in the Budget Act but are recorded within CALSTARS under Program 96 - Undistributed Multi-Program Costs.

II. DEFINITIONS:

Direct Costs - Any cost that can be identified to a particular program cost center.

Indirect Costs - Costs that are (a) incurred for a common or joint purpose benefiting more than one program cost center, and (b) not easily assigned to those particular program cost centers.

III. BUDGET STRUCTURE:

Program 10 – Research

Program 20 – Enforcement

Program 30 - Administration

Element 01 - Administration

Element 02 - Distributed Administration

Administration contains functions and activities that are directly concerned with establishing the policy and methods and controlling the execution of the Department's role in State government. The functions performed by this program are policy formulation, direction and coordination. This program also contains support and specialized services that are essential to the administration and operation of the department.

ALLOCATION OF COSTS

IV. ALLOCATION METHODOLOGY

ALLOCATION OF INDIRECT COST POOLS:

Indirect cost pools are identified in the Cost Allocation Table as Program 96.

Program 96 cost pools allocate to the following programs during the cost allocation process:

- 10 – Research
- 20 – Enforcement
- 30.01 - Administration

These costs allocate without Index identification. Use Index Code 0000 in the Cost Allocation Table Key.

Charges to the Program 96 cost pools include:

- Training Facility Usage (PCA 96101, Various Object Details)

Distribution Type: 4 - Fixed Percentage

PCA Type: 3 - Redistribution

Charge Information:

PCA TITLE	OBJECT DETAIL	AGENCY OBJECT
96101 Allocation of Training Facility Usage	Actual	Actual

Distribution: Programs 10, 20 and 30.01

Basis: Fixed percentage of square footage previously determined in Programs 10, 20 and 30.01.

ALLOCATION OF COSTS

Credit Information:

The Program 96 cost pools will recover back to themselves using the same Object Detail and Agency Object as charged in the initial expenditure coding.

Percent Distribution of Cost Pools to Program PCAs

COST POOL PCA	PROGRAM	PCA	Percentage
96101	10	10101	5%
		10201	5
		10301	10
		10401	13
		10501	17
	20	20199	26
	30.01	30101	24
		TOTAL	100%

ALLOCATION OF COSTS

ALLOCATION OF ADMINISTRATION

Administrative costs allocate to the following direct programs during the cost allocation process:

- 10 – Research; and
- 20 – Enforcement

These costs allocate without Index identification. Use Index Code 0000 in the Cost Allocation Table Key.

The total administration dollars allocate to those programs based on the personal services charged to each direct program.

Distribution Type: 5 - Calculated Pro rata Percentage of expenditures in the allocation range

PCA Type: 5 - Special - Administration

Charge Information:

PCA	TITLE	OBJECT DETAIL	AGENCY OBJECT
30101	Administration	Object Code 427	

Distribution: Programs 10 and 20.

Basis: Total administration dollars allocated based on the personal services dollars charged to each direct program. (Object Detail Codes 003 Agency Object 00 through 137 Agency Object 99)

Credit Information:

PCA	TITLE	OBJECT DETAIL	AGENCY OBJECT
30102	Distributed Administration	Object Code 912	

Allocation Range:

The PCA range of 10101 - 20199 may include Object Detail 427, allocated costs.

ALLOCATION OF COSTS

V. ALLOCATION SEQUENCE

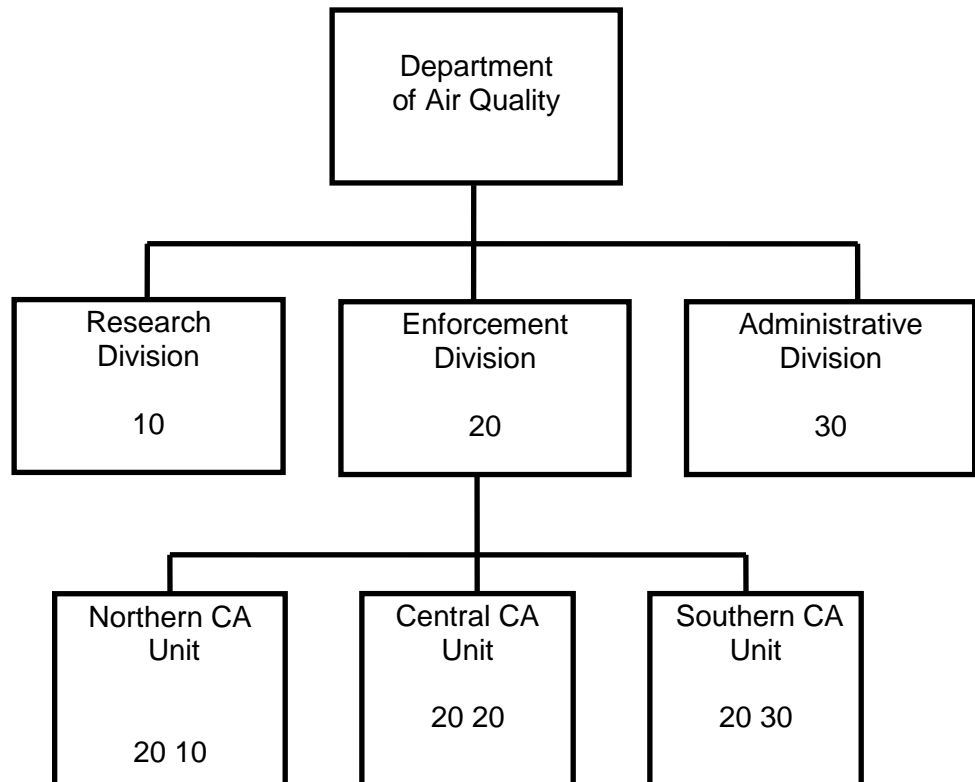
Indirect Cost Pools - These costs allocate during Step 1 of the month-end Cost Allocation/Fund Split process.

Administration Costs - These costs allocate during Step 2 of the month-end Cost Allocation/Fund Split process.

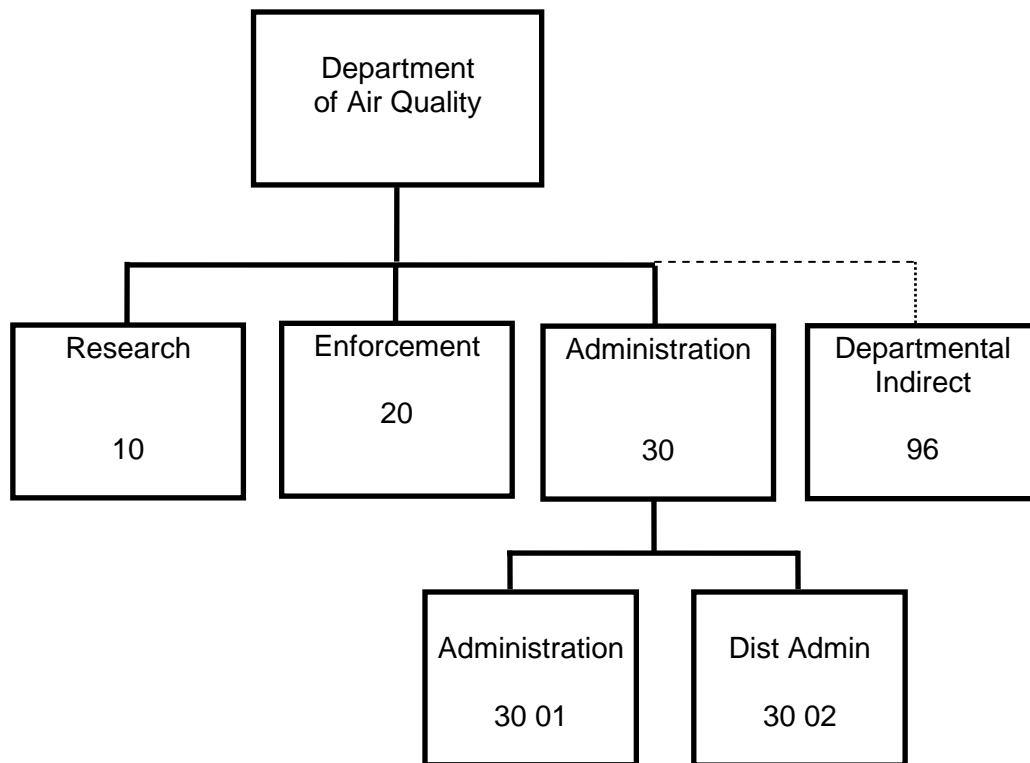
VI. PROGRAM AND ORGANIZATION STRUCTURE

The Department's Program and Organization structure is identified on the following pages.

ORGANIZATION STRUCTURE



ALLOCATION OF COSTS
PROGRAM STRUCTURE



ALLOCATION OF COSTS

COST ALLOCATION PROCESS

9204

(New 03/10)

The following illustrations display the cost allocation process of personal services, operating expense and equipment, service units, and a reconciliation of program costs to the general ledger. Departments must allocate costs to the program level required by their program budget.

Each department will ensure that all costs have been allocated by reconciling the total costs allocated with the total expenditures reflected in the appropriation expenditures account (including accrual expenditures) in the general ledger at June 30.

9204 ILLUSTRATION
ALLOCATION OF PERSONAL SERVICES COSTS
FOR THE FISCAL YEAR ENDING JUNE 30, ____^{1/}

UNITS	DIRECT HOURS	PROGRAMS					PERSONAL SERVICES COSTS ^{2/}	PROGRAMS					ADMIN
		10	15	20	25	30		10	15	20	25	30	
1	65,000	20,000 30.8%	15,000 23.1%	10,000 15.3%		20,000 30.8%	400,000	123,200	92,400	61,200		123,200	
2					X ^{3/}		630,000				630,000		
3	125,000	40,000 32%	50,000 40%	35,000 28%			750,000	240,000	300,000	210,000			
4	80,000				40,000 50%	40,000 50%	540,000				270,000	270,000	
5 & 7 ^{4/}	150,000	10,000 6.7%		100,000 66.6%		40,000 26.7%	960,000	64,320		639,360		256,320	
6	90,000		30,000 33.3%		60,000 66.7%		650,000		216,450		433,550		
ADMINISTRATION							300,000						300,000
							4,230,000	427,520	608,850	910,560	1,333,550	649,520	300,000
PERCENTAGE OF TOTAL PERSONAL SERVICES								10.1%	14.4%	21.5%	31.5%	15.4%	7.1%
PERCENTAGE OF TOTAL PERSONAL SERVICES WITHOUT ADMINISTRATION								10.9%	15.5%	23.2%	33.9%	16.5%	

Allocation Steps:

- a. Determine the hours charged to each program.
- b. Determine the percentage of direct hours charged to each program to the hours charged to all programs.
- c. Use the percentages in b above to allocate the unit's personal services costs.
- d. After personal services costs of all units are allocated, total the costs charged to each program. Determine percentages of each program to total costs for all programs including administration.

1/ Allocation may be made as often as the department desires, with a minimum of once a year at year-end.

2/ Personal services costs are the actual amount paid for personal services and staff benefits.

3/ Unit 2 personnel do not keep time sheets since all of their time is spent on one program.

4/ Units 5 and 7 are combined because their salary mix is the same.

9204 ILLUSTRATION
ALLOCATION OF OPERATING AND EXPENSE AND EQUIPMENT COSTS
FOR THE FISCAL YEAR ENDING JUNE 30, ____ 1/

	TOTAL EXPENDITURES	PROGRAMS					ADMINISTRATION
		10	15	20	25	30	
Freight	5,000				5,000		
Consulting Services	25,000		25,000				
Rent	200,000	20,000	35,000	40,000	53,000	45,000	7,000
Travel-in-State	120,000	15,480	21,960		48,240	23,520	10,800
		12.9%	18.3%		40.2%	19.6%	9.0%
Other OE&E	700,000	70,700	100,800	150,500	220,500	107,800	49,700
		10.1%	14.45%	21.5%	31.5%	15.4%	7.1%
Equipment	40,000			30,000		10,000	
TOTAL	1,090,000	106,180	182,760	220,500	326,740	186,320	67,500

Allocation Steps:

- a Charge to programs those costs which can be identified directly to a program (freight, consulting services, and equipment).
- b Allocate expenses by their allocation bases:
 - 1) Rent is allocated on the basis of square feet.
 - 2) Travel-in-state is allocated on the basis of actual personal services costs charged to those programs which require its personnel to travel.
 - 3) All other operating expenses which cannot be identified directly to a program or allocated more accurately utilizing another allocation basis is allocated on the basis of salaries and wages costs charged to programs.

Note: This example shows different allocation bases used to allocate different types of costs. Departments will use a basis which will allocate each type of cost equitably.

9204 ILLUSTRATION
ALLOCATION OF SERVICE UNIT AND ADMINISTRATION COSTS TO PROGRAMS
FOR THE FISCAL YEAR ENDING JUNE 30, ____ 1/

ALLOCATION OF SERVICE UNIT COSTS TO PROGRAMS

		PROGRAMS					ADMINISTRATION
		10	15	20	25	30	
Hours	2,001	84	100	335	1,339	59	84
Allocation Percentages	100%	4.2%	5.1%	16.7%	66.9%	2.9%	4.2%
Service Unit Costs	239,000	10,038	12,189	39,913	159,891	6,931	10,038

ALLOCATION OF ADMINISTRATION COSTS TO PROGRAMS

		PROGRAMS				
		10	15	20	25	30
ADMINISTRATION						
Personal Services	300,000					
OE&E	67,500					
Service Unit Costs	10,038					
TOTAL	377,538					
Allocation Percentages ^{1/}	100%	10.9%	15.5%	23.2%	33.9%	16.5%
Allocation	377,538	41,152	58,518	87,589	127,985	62,294

1/ Percentage is calculated by dividing total of program's personal services by the total department's personal services.

**9204 ILLUSTRATION
RECONCILIATION OF PROGRAM COSTS
FOR THE FISCAL YEAR ENDING JUNE 30, ____ 1/**

RECONCILIATION OF PROGRAM COSTS

	PROGRAMS					TOTAL COSTS
	10	15	20	25	30	
Personal Services	427,520	608,850	910,560	1,333,550	649,520	3,930,000
OE&E	106,180	182,760	220,500	326,740	186,320	1,022,500
Service Unit Costs	10,038	12,189	39,913	159,891	6,931	228,962
Administration	41,152	58,518	87,589	127,985	62,294	377,538
Total Program Costs	584,890	862,317	1,258,562	1,948,166	905,065	5,559,000
Total Per General Ledger Appropriation Expenditures Account						5,559,000

ALLOCATION OF COSTS

TIME REPORTING

9205

(New 03/10)

Time may be reported by one or more of the following methods:

1. Continuous Positive Time Reporting
The employee prepares a time report in which he identifies how he used all of his time during the period.
2. Continuous Exception Time Reporting
The employee identifies only the time he spends on other than his normal work.
3. Sample Time Reporting
During a time period which is representative of the organizational unit's work mix, each employee prepares a positive time report or an exception time report. Based on a tabulation of these time reports, a time charging pattern is derived which is used until it is considered appropriate to take another sample, i.e., when the time charging pattern is no longer deemed to be representative of the organizational unit's work mix.
4. Other
A department may wish to exempt certain employees or employees in an organizational unit from preparing time reports when their total effort is spent on a single program. In these situations, personal services may be charged directly to the program benefiting from employee activities.